

# AQA Economics AS-level

## Microeconomics

### Topic 5 - Market Mechanism, Market Failure and Government Intervention in Markets

#### Flashcards

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# Administrative costs



Costs that are not directly related to a business operation e.g paperwork



# Asymmetric information



When one party knows more or has better information than the other party in a transaction e.g a patient and doctor



# Complete market failure



Occurs where the market is missing



# Consumption externality





An externality (which may be positive or negative) generated through consumption of a good or service



# Demerit good



Goods where the social costs in consumption exceed the private costs in consumption



# Distribution of income and wealth



The way in which total income and wealth are divided among the population of an economy



# Economic welfare



## Question

# Quality of life of the population



# Equity





Fairness, justness. Involves value judgements



# Externality



External effects imposed on society derived from the production or consumption of a good or service



# Free rider problem



Once a public good is produced, there is no way to control who benefits from it



# Geographical immobility of labour



Occurs where workers find it difficult to relocate to places where jobs exist, e.g. housing costs



# Government failure





When government intervention leads to a lessening of economic welfare and a misallocation of resources



# Government intervention



When a government actively intervenes and affects market operation



# Immobility of factors of production



When it is hard for factors of production to move across different areas within the economy



# Immobility of labour



The inability of labour to move from one occupation to another. There are 2 main types, geographical and occupational



# Imperfect information





When an economic agent does not hold all the necessary information to make an informed decision about a product



# Incentive



Something that motivates an agent in the economy



# Income inequality



# Differences in size of earnings between households/individuals



# Inequity



Unfairness, unjustness. Involves value judgements



# Market distortions





Where interference in a market affects  
behaviour and prices/output



# Market economy



Where output and prices are determined  
by the workings of supply and demand



# Market failure



Occurs when the market mechanism leads to a misallocation of resources



# Merit good



Goods where the social costs in consumption exceed the private costs in consumption



# Missing market





A situation where there is no market due to the breakdown of the price mechanism



# Negative externality



Negative external effects imposed on society derived from the production or consumption of a good or service



# Non-excludable



A good or service where you are unable to prevent non-paying consumers from benefiting or using the good.



# Non-rival



## Question

Where one person's consumption of a good or service does not decrease the amount available for consumption by another consumer



# Occupational immobility of labour





Occurs where workers find it difficult to transfer between different occupations due to a lack of transferrable skills



# Partial market failure



This is where a market exists but  
contributes to resource misallocation



# Positive externality



Positive external effects imposed on society derived from the production or consumption of a good or service



# Price ceiling



A price above which trade is illegal



# Price controls





Government controls on prices e.g  
maximum or minimum prices



# Price floor



A price below which trade is illegal



# Price mechanism



The way in which prices are determined through forces of supply and demand



# Private benefit



Benefits incurred to the individual  
through consumption or production



# Private cost





Costs incurred to the individual through consumption or production



# Private good



An excludable, rival good



# Production externality



An externality (which may be positive or negative) generated through production of a good or service



# Productivity gap



# Difference between productivity of UK labour and other countries' labour



# Public good





A non-excludable, non-rival good



# Quasi-public good



A good that is not fully non-rival and/or  
not fully non-excludable



# Rationing



Limiting the amount or quantity of a good available



# Regulation



Imposing policies, rules, laws,  
constraints etc.



# Resource misallocation





When resources are allocated in a way that doesn't maximise economic welfare



# Signalling



Where a change in the price of goods or services that show that supply or demand should be adjusted



# Social benefits



The sum of private benefits and external benefits



# Social cost



The sum of private costs and external costs



# State provision





Where the government provides a good or service



# Subsidy



Payment made by the government (or other authority) to incentivise production of a good



# Tax



Compulsory levy imposed by the government to de-incentivise production of a good



# Unemployment



Those who are willing and able to work  
yet do not have jobs



# Unintended consequences





The actions of people or government  
have consequences that were not  
anticipated

